HS Orka hf.

Condensed Interim Financial Statement
nine months ended 30 September 2012
ISK

HS Orka hf.
Brekkustígur 36
260 Reykjanesbær

Reg.no. 680475-0169

Contents

Endorsement by the Board of Directors and the Management

The condensed interim financial statements of HS Orka hf. (the Company) for the period from 1 January to 30 September 2012 are prepared in accordance with the International Accounting Standard, IAS 34, *Interim Financial Reporting* .

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 4,954 million for the first nine months of 2012 (2011: ISK 5,551 million) and the profit for the period amounted to ISK 1,071 million (2011: ISK 932 million loss). Total comprehensive income amounted to ISK 1,081 million (2011: comprehensive loss ISK 929 million). According to the statement of financial position, the Company's assets amounted to ISK 44,233 million at the end of September 2012 (at year end 2011: ISK 39,904 million). Equity amounted to ISK 22,176 million at the end of Septembere 2012 (at year end 2011: ISK 16,397 million) or 50.1% of total capital (at year end 2011: 41.1%).

Icelandic shareholder Jardvarmi slhf. informed Magma Energy Sweden AB, on 10 February 2012 of its decision to exercise option to increase its stake in HS Orka from 25.0% to 33.4%, according to an agreement between Jardvarmi and Magma Energy Sweden AB. Jardvarmi slhf. paid ISK 4.7 billion for the new shares at the end of February 2012 that increased HS Orka hf. equity by the same amount. Nominal value of the share capital increased by ISK 878 million to ISK 7.8 billion.

To the best knowledge of the Board of Directors and the Management, the Company's condensed interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the Management that the condensed interim financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 September 2012, its financial performance, and the changes in cash flows in the period from 1 January to 30 September 2012.

Furthermore, it is the opinion of the Board of Directors and the Management that the condensed interim financial statements and endorsement by the Board of Directors and the Management contain a fair overview of the Company's financial development and performance, its position and describe the main risk factors and uncertainties faced by the Company.

The Board of Directors and the Management of HS Orka hf. have today approved the Company's condensed interim financial statements for the period from 1 January to 30 September 2012 and confirmed by means of their signatures.

Reykjanesbær, 14 November 2012.

The Board of Directors:

Ásgeir Margeirson
Gylfi Árnason
John Carsson
Anna Skúladóttir
Ross Beaty

Managing Director:

Júlíus Jónsson

Assistant Managing Director:

Albert Albertsson

Independent Auditors' Review Report

To the Board of Directors of HS Orka hf.

We have reviewed the accompanying statement of financial position of HS Orka hf. as of 30 September 2012 and the related statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting.*

Reykjavík, 14 November 2012

KPMG ehf.

Sæmundur Valdimarsson
Margret G. Flóvenz

Statement of Comprehensive Income
for the nine months ended 30 September 2012

	Note	2012 Q3	2011 Q3	2012 YTD	2011 YTD
Operating revenue	5	1.488.393	1.747.765	4.954.223	5.550.647
Production cost and cost of sales		(1.008.260)	(1.236.003)	(3.332.494)	(3.666.973)
Gross profit		480.133	511.762	1.621.729	1.883.674
Other operating expenses	6	(86.666)	(134.443)	(334.805)	(487.851)
Results from operating activities		393.467	377.319	1.286.924	1.395.823
Finance income		85.462	384.714	227.295	98.550
Finance costs		(222.906)	(184.326)	(737.226)	(1.202.922)
Changes in fair value of derivatives		21.062	127.138	84.869	150.254
Changes in fair value of embedded derivatives in sales contracts		1.790.198	(2.938.843)	262.280	(1.812.974)
Net finance income (expenses)	7	1.673.816	(2.611.317)	(162.784)	(2.767.092)
Share of profit of associates		117.826	101.100	171.296	164.840
Profit (loss) before income tax		2.185.108	(2.132.898)	1.295.436	(1.206.429)
Income tax		(413.456)	446.793	(224.828)	274.247
Profit (loss) for the period		1.771.652	(1.686.105)	1.070.609	(932.182)
Other comprehensive income					
Foreign currency translation difference of associates		9.464	(22.826)	10.113	3.219
Other comprehensive income (loss) for for the period, net of income tax		9.464	(22.826)	10.113	3.219
Total comprehensive income (loss) for the period		1.781.117	(1.708.931)	1.080.722	(928.963)
Earnings (loss) per share					
Basic and diluted earnings (loss) per share		0,23	(0,24)	0,14	(0,13)

Notes on pages 9 to 12 are an integral part of these condensed interim financial statements

Condensed Interim Financial Statements 30 September 2012 of HS Orka hf. 5 All amounts are in thousands of ISK

Statement of Financial Position
as at 30 September 2012

Assets	Note	30.9.2012	31.12.2011
Operating assets		25.338.446	25.803.349
Operating assets under construction		3.621.189	3.544.465
Intangible assets		987.318	982.699
Investments in associates		696.555	655.608
Investments in other companies		27.075	27.075
Bonds		353.809	405.201
Embedded derivatives in power purchase agreements		4.491.528	4.294.623
Deferred tax asset		274.652	499.481
Prepaid lease and royalty fee		468.803	454.676
Long term receivable		278.298	200.926
Total non-current assets		36.537.674	36.868.103
Inventories		405.630	368.386
Bonds		76.741	70.428
Trade and other receivables		942.612	1.125.599
Embedded derivatives in power purchase agreements		232.159	166.784
Short term investments	8	558.845	0
Cash and cash equivalents	9	5.479.189	1.304.713
Total current assets		7.695.176	3.035.910
Total assets		44.232.850	39.904.013
Equity			
Share capital	11	7.841.124	6.962.919
Share premium	11	7.038.855	3.218.660
Translation reserve		307.656	297.542
Revaluation reserve		1.589.984	1.647.187
Retained earnings		5.398.773	4.270.960
Total equity		22.176.393	16.397.268
Liabilities			
Loans and borrowings		16.106.546	17.476.628
Pension obligations		1.711.793	1.576.500
Currency and interest rate swap contracts		643.275	761.614
Total non-current liabilities		18.461.614	19.814.742
Loans and borrowings		2.295.122	2.101.388
Trade and other payables		909.910	1.234.276
Currency and interest rate swap contracts		389.811	356.339
Total current liabilities		3.594.843	3.692.003
Total liabilities		22.056.457	23.506.745
Total equity and liabilities		44.232.850	39.904.013

Notes on pages 9 to 12 are an integral part of these condensed interim financial statements

Condensed Interim Financial Statements 30 September 2012 of HS Orka hf. 6 All amounts are in thousands of ISK

Statement of Changes in Equity
for the nine months ended 30 September 2012

	Share capital	Share premium	Translation reserve	Revaluation reserve	Reserve for shares in associate	Retained earnings	Total
1 January to 30 September 2011							
Equity at 1 January 2011	6.962.919	3.218.660	296.634	1.723.505	(37.157)	5.131.395	17.295.956
Total comprehensive loss			3.219	0	0	(932.182)	(928.963)
Revaluation reserve transferred to retained earnings				(57.239)		57.239	0
Excercised put options on own shares of an associate					37.157		37.157
Equity at 30 September 2011	6.962.919	3.218.660	299.853	1.666.266	0	4.256.452	16.404.150
1 January to 30 September 2012							
Equity at 1 January 2012	6.962.919	3.218.660	297.542	1.647.187	0	4.270.960	16.397.268
Total comprehensive Income			10.113			1.070.609	1.080.724
Revaluation reserve transferred to retained earnings				(57.203)		57.203	0
Share capital increase	878.205	3.820.195					4.698.400
Equity at 31 September 2012	7.841.124	7.038.855	307.655	1.589.984	0	5.398.773	22.176.393

Notes on pages 9 to 12 are an integral part of these condensed interim financial statements

Condensed Interim Financial Statements 30 September 2012 of HS Orka hf. 7 All amounts are in thousands of ISK

Statement of Cash Flows
for the nine months ended 30 September 2012

	Note	2012 YTD	2011 YTD
Cash flows from operating activities			
Profit (loss) for the period		1.070.610	(932.182)
Adjustments:			
Gain on sale of operating assets		(4.553)	(2.675)
Increase in pension obligations		135.295	149.000
Depreciation and amortization		747.280	726.194
Net finance expenses		162.783	2.767.092
Share of profit of associates		(171.296)	(164.840)
Income tax		224.828	(274.247)
		2.164.946	2.268.342
Inventories, increase		(37.244)	(35.925)
Receivables, decrease (increase)		157.763	(14.321)
Current liabilities, (decrease) increase		(205.340)	78.632
Net cash from operations before interest and taxes		2.080.125	2.296.728
Interest income received		138.011	44.545
Interest and indexation costs paid		(345.907)	(477.546)
Net cash from operating activities		1.872.229	1.863.727
Cash flows from investing activities			
Acquisition of operating assets during the period		(346.940)	(515.103)
Payments for operating assets acquired in prior year		(174.394)	(244.142)
Proceeds from sale of operating assets		5.518	3.200
Acquisition of intangible assets		(17.743)	(15.232)
Acquisition of shares in associates		(35.156)	(23.000)
Dividend received from associate		161.805	4.855
Short term investments		(550.000)	0
Proceeds from repayment and sale of bonds		78.514	634.164
Net cash used in investing activities		(878.396)	(155.258)
Cash flows from financing activities			
Share capital increase		4.698.400	0
Repayment of borrowings		(1.530.905)	(1.536.116)
Net cash provided by (used in) financing activities		3.167.495	(1.536.116)
Increase in cash and cash equivalents		4.161.328	172.353
Cash and cash equivalents at 1 January		1.304.713	1.043.250
Effect of exchange rate fluctuations on cash held		13.148	54.866
Cash and cash equivalents at 30 September		5.479.190	1.270.469

Investing and financing activities not affecting cash flows

		2012 YTD	2011 YTD
Dividend from shareholder		18.502	0
Acquisition of shares in associate		(14.801)	0
Receivables		(3.701)	0
Current liabilities		0	187.187
Acquisition of operating assets		0	(187.187)

Notes on pages 9 to 12 are an integral part of these condensed interim financial statements

Condensed Interim Financial Statements 30 September 2012 of HS Orka hf. 8 All amounts are in thousands of ISK

Notes to the Condensed Interim Financial Statements

1. Reporting entity

HS Orka hf. is a limited liability company domiciled in Iceland. The Company's registered office address is Brekkustígur 36, Reykjanesbær, Iceland. The Company generates and sells electricity and hot water for heating. The condensed interim financial statements as at and for the nine months ended 30 September 2012 comprises the Company and its interest in associates. The Company is a subsidiary of Magma Energy Sweden AB. The financial statements of the Company are part of the consolidated financial statements of the ultimate parent company Alterra Power Corp., headquartered in Canada.

The Company's financial statements can be found at its website www.hsorka.is and at the website of the Icelandic Stock Exchange; www.nasdaqomxnordic.com.

2. Statement of compliance

This condensed interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* . Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended 31 December 2011. This condensed consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

These condensed interim financial statements were approved by the Board of Directors on 14 November 2012.

3. Significant accounting policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2011.

These condensed interim financial statements are prepared in Icelandic krona, which is the company's functional currency and all amounts have been rounded to the nearest thousand. They are based on historical cost, except for the following:

- a part of operating assets is recognized at revalued cost, which was the fair value at the revaluation dates of 1.1.2008 and 31.12.2009
- derivative financial instruments are measured at fair value
- embedded derivatives in electric power sales contracts are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

4. Use of estimates and judgments

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key source of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2011.

Notes, continued

5. Segment reporting

The Company has three operating segments that are described below:

Power Production

Includes production and sale of electricity, heating water and fresh water from subterranean steam.

Electricity Sale

Includes purchases and sale of electricity to users other than mass users and power companies.

Other

Includes sale of service, rental of facilities and equipment, and other sales.

1 January - 30 September 2012	**Power production**	**Electricity sale**	**Other**	**Total**
External revenue	2.278.271	1.924.079	751.873	4.954.223
Inter-segment revenue	1.024.048			1.024.048
Total segment revenue	3.302.319	1.924.079	751.873	5.978.271
Segment operating results	1.008.258	226.106	52.560	1.286.923
Unallocated items				
Net finance expenses				(162.784)
Share of profit of associates				171.296
Income tax				(224.828)
Profit for the period				1.070.607
Segment assets	29.332.967	49.801	564.186	29.946.954
Unallocated assets				14.285.896
Total assets				44.232.850
Unallocated liabilities				22.056.457
Capital expenditures	353.613	2.720	8.351	364.683
Depreciation and amortization	717.672	4.218	25.389	747.280

1 January - 30 September 2011	**Power production**	**Electricity sale**	**Other**	**Total**
External revenue	3.236.775	1.609.712	704.160	5.550.647
Inter-segment revenue	491.180			491.180
Total segment revenue	3.727.955	1.609.712	704.160	6.041.827
Segment operating results	1.277.779	73.149	44.895	1.395.823
Unallocated items				
Net finance expenses				(2.767.092)
Share of profit of associates				164.840
Income tax				274.247
Loss for the period				(932.182)
Segment assets	29.858.701	52.711	588.953	30.500.365
Unallocated assets				9.354.424
Total assets				39.854.789
Unallocated liabilities				23.450.639
Capital expenditures	705.402	2.418	9.702	717.522
Depreciation and amortization	692.394	3.518	30.282	726.194

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5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 1,649 million of the Company's total revenues during the period (1.1.2011 - 30.9.2011: ISK 2,502 million).

Revenues from HS Veitur hf. represents ISK 1,308 million during the period (1.1.2011 - 30.9.2011: ISK 1,208 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1. - 30.9.2012	511.707	163.692	632.758	1.308.157
Revenues 1.1. - 30.9.2011	482.242	145.313	580.642	1.208.197

6. Other operating expenses

Operating expenses specifies as follows:

	2012 Q3	2011 Q3	2012 YTD	2011 YTD
Salaries and related expenses	34.181	32.848	113.879	105.530
Change in pension fund commitment	8.693	20.038	59.204	60.597
Administrative expenses	40.920	78.734	151.493	310.377
Depreciation and amortization	2.872	2.823	10.229	11.347
Total operating expenses	86.666	134.443	334.805	487.851

7. Net finance (expenses) income

Net finance (expenses) income specifies as follows:

	2012 Q3	2011 Q3	2012 YTD	2011 YTD
Interest income on loans and receivables	80.879	13.583	193.859	49.937
Interest income on available for sale securities	0	0	0	3.429
Net foreign exchange gain	0	358.733	0	0
Fair value changes on financial assets through profit and loss	4.583	12.398	33.436	45.184
Total finance income	85.462	384.714	227.295	98.550
Interest expense	(131.766)	(155.898)	(398.744)	(459.165)
Indexation	10.111	(28.428)	(89.205)	(144.369)
Net foreign exchange loss	(101.250)	0	(249.276)	(599.388)
Total finance costs	(222.906)	(184.326)	(737.226)	(1.202.922)
Fair value changes of currency and interest rate swap contracts	21.062	127.138	84.869	150.254
Fair value changes of embedded derivatives in electric power sale contracts	1.790.198	(2.938.843)	262.280	(1.812.974)
Net finance income (expenses)	1.673.815	(2.611.318)	(162.783)	(2.767.092)

Condensed Interim Financial Statements 30 September 2012 of HS Orka hf. 11 All amounts are in thousands of ISK

Notes, continued

8. Short term investments

The company has invested in short term securities amounting to 559 million at the end of the period.

9. Restricted cash

At the end of September 2012 cash in the amount of ISK 556 million (USD 4.5 million) (at year end 2011: ISK 554 million) was classified as restricted. The cash is dedicated to pay interest and loan payments on none ISK denominated loans in accordance with a collateral agreement concluded in March 2010 with the Company's lenders.

10. Agreement with banks

At the end of the year 2009, the Company signed temporary agreements with its lenders with revised covenants and interest rates for the years 2009 and 2010. One of these temporary agreements was extended for the year 2011 by one of the banks (European Investment Bank) but further waivers were not needed for the other two banks. This waiver has now been extended for 2012 and the company is now in negotiations on extentions of the waiver. In early 2012, the Company amended its loan agreement with Nordic Investment Bank, which amended certain covenants and reset interest rates.

11. New equity

Icelandic shareholder Jardvarmi slhf. informed Magma Energy Sweden AB, on 10 February 2012 of their decision to exercise its option to increase its stake in HS Orka from 25.0% to 33.4%, according to an agreement between Jardvarmi and Magma Energy Sweden AB. Jardvarmi slhf. payed ISK 4.7 billion for the new shares at the end of February 2012 that increased HS Orka hf. equity by the same amount. Nominal value of the share capital increased by ISK 878 million to ISK 7.8 billion.

12. Dispute over swap agreement

A foreign currency swap agreement entered into between Glitnir Bank hf. and HS Orka hf. on 19 November 2006 is in dispute. HS Orka claims the agreement was annulled in November 2008 when Glitnir stated in a communication to HS Orka that they did not intend to fulfill their part of the contract. Glitnir now claims the contract is still valid and demand payments from HS Orka. The parties have had discussions to seek a compromise and explore whether there is a scope for negotiations to settle the agreement. Glitnir has made an offer to HS Orka where they claim an amount identical to the amount HS Orka has calculated, based on the original contract. However, they further claim a penalty interest assessment for the whole amount. The penalty interest is considered unacceptable by HS Orka in light of the facts, and if further negotiations will not lead to a result acceptable to HS Orka, it will be up to the courts to decide on the matter. HS Orka will claim principally that the agreement was terminated/annulled in November 2008 and therefore HS Orka has no obligations thereunder, but at the same time and alternatively, that net present calculations of obligations pursuant to the agreement should be substantially lower than those claimed by Glitnir. HS Orka's calculation of the contract value is ISK 1,033 million and is shown at that value in the Statement of Financial Position.

13. Other matters

Litigations and claims

HS Orka hf. initiated on 16 December 2011 arbitration proceedings against Nordural Grundartangi concerning interpretation of clauses in the Power Purchase Agreement for Grundartangi concerning a minimum purchase of electricity. The full amount was accrued at end of September 2012. Results of the arbitration proceedings are expected in early 2013.

Drilling of new wells

On 25 September 2012 a contract with Jardboranir hf., for drilling two new wells, one work over and one new optional well was signed. Work is expected to be commenced by mid November, until late March or early May next year, including option. Total budget of the drilling is ISK 1,600 million.

Trölladyngja

According to the first recommendation of the steering committee of "Rammaáætlun II" to the parliament, regarding categorizing the potential hydro and geothermal power sites in three groups: protected site, pending site and power developing site, the Trölladyngja area is categorized as a pending site where more information and data is required. The recommendation is now for dictums at all stake holders. HS Orka hf. has formerly opposed the recommendation with respect to Trölladyngja. If the recommendation is adopted HS Orka hf. would immediately assess the impact on the carrying value of Trölladyngja. The current carrying amount of those assets is ISK 676 million.